

AR53

Sub
American
Hospital
Supply
Corporation
Annual
Report
1968



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Stockholders' Meeting:

The annual meeting of stockholders will be held at 10 a.m. on Saturday, May 3, 1969, in the auditorium of Evanston Township High School, 1600 Dodge Avenue, Evanston, Ill. Notice of meeting and proxy material will be mailed to stockholders. Owners unable to attend are urged to sign and return their proxies promptly.

The cover symbols represent health product groups utilized both in hospital and non-hospital markets. These products are discussed in a section which begins on page 9.

1968 Results In Brief:

	(\$ and shares in thousands)	1968	1967	% Incr.
Net sales	\$386,588	\$325,434		19
Earnings before federal income taxes	\$ 41,902	\$ 33,743		24
Net earnings	\$ 20,923	\$ 18,037		16
Net earnings as a percent of net sales	5.4	5.5		—
Net earnings per share	\$ 0.67	\$ 0.59		14
Number of shares outstanding*	32,279	30,403		6
Dividends paid	\$ 6,659	\$ 6,139		8
Dividends paid per share	\$ 0.215	\$ 0.175		23

*After reflecting the three-for-one
stock split effective May 31, 1968.

To Our Stockholders:

Last year was an excellent year for American Hospital Supply Corporation. It was excellent in terms of results achieved within the year; and it was excellent in terms of programs and projects initiated for future years.

Sales, earnings and earnings per share were the highest in the corporation's 47-year history. Net sales for the year were \$386,587,846; an increase of 19 per cent over 1967 sales of \$325,433,831.

Net earnings for the year were \$20,923,080, representing an increase of 16 per cent over \$18,037,384 for the prior year. Earnings per share were 67 cents for 1968 and 59 cents for 1967, an increase of 14 per cent.

Earnings and Sales Comment

These results were somewhat better than we had expected in view of greatly increased taxes. Net earnings before

Increase Over Prior Year Shown on a pooling basis.			
Net Sales	Earnings Before Income Tax	Net Earnings	Earnings per Share
	1968: 24%	1968: 16%	1968: 14%
1968: 19%	1967: 19%	1967: 23%	1967: 23%
	1966: 20%	1966: 17%	1966: 17%
1967: 16%	1966: 21%	1966: 24%	1965: 24%
	1965: 12%	1964: 15%	1964: 14%
1964: 10%			

federal income taxes were \$41,902,541, an increase of 24 per cent over 1967 pre-tax earnings of \$33,742,896. We estimate the federal surtax for 1968 at

about \$1,761,000, or approximately 5 cents per share. Without the surtax, net earnings would have risen 26 per cent and earnings per share 22 per cent over 1967.

The greatest part of our 1968 sales was to health care institutions. This area, which includes hospitals, rehabilitation centers, nursing homes and similar facilities, accounted for 43 per cent of the corporation's sales. Laboratories — industrial, clinical, research, educational and blood banks — accounted for 30 per cent of sales. The remaining 27 per cent of sales was to non-affiliated dealers, schools, industry and dentists to name just some.

New products, many of them coming from our research and development programs, contributed heavily to sales increases. There were literally hundreds of new items, but a few examples may be of interest: a new single-patient-stay thermometer (American Hospital Supply), a line of school clothing for boys (Brucks), air pollution control testing standards (Harleco), a new line of hospital casework (Hamilton), a newly designed artificial heart valve (Edwards Laboratories) and an improved disposable gown for isolation areas of hospitals (Convertors).

The corporation also introduced a blood warming system for use in transfusions (McGaw Laboratories), a line of mobile dental consoles for improved operating (Midwest American Dental), fiber optical instruments to bring light directly to the body point being examined or operated upon (V. Mueller), an automatic blood coagulation analyzer for use in checking the effectiveness of anti-clotting drug treatment (Scientific Products) and disposable aprons for food service facilities (Zimmon).

Pharmaseal Laboratories introduced a disposable pre-packaged biopsy tray kit for surgery. The Dade Division developed an automatic cell washer which reduces time required for certain blood matching procedures by up to 50 per cent. Institutional Industries began a systems planning service utilizing its line of patient transfer and supply distribution products. And the newly developed Life Instrumentation section, in cooperation with the corporation's manufacturing components, introduced the Belzer Organ Preservation System for use in organ transplant procedures.

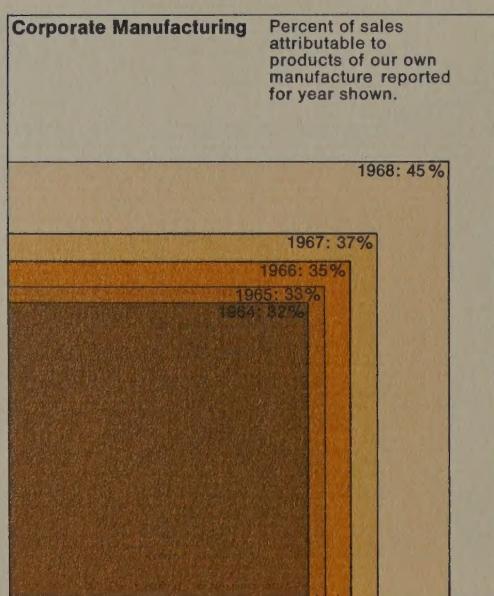
Sales from our international operations, including Canada, were up moderately in dollar volume but accounted for a slightly decreased percentage of our total sales; 13 per cent of 1968 sales against 14 per cent of 1967 sales.

A significant contribution to earnings came from the 45 per cent of our 1968 sales which represents products of our

Increased emphasis on manufacturing in no way diminishes our opinion that the corporation's distribution capabilities, its supplier network and the skills of its sales forces are among our strongest assets.

Acquisitions, New Subsidiaries

In November of 1967, we announced that an agreement in principle had been reached to combine American Hospital Supply Corporation with the Hamilton Manufacturing Company of Two Rivers, Wis. Last April, Hamilton's properties, assets and business were transferred to an American subsidiary in exchange for 2,365,293 shares of American Hospital Supply Corporation stock. Hamilton, with two large plants in Two Rivers and another in Kosciusko, Miss., manufactures furniture and equipment for laboratories and for the medical and dental professions. It also makes drafting room equipment, printing cabinetry and mobile and folding furniture for industrial and educational markets. Hamilton's line of home laundry equipment was sold last year to provide additional manufacturing facilities and personnel for hospital and school products.



own manufacture. This percentage has increased steadily over the years; it was 37 per cent in 1967, as reported.

An offer, announced in December last year, preceded the exchange of American Hospital Supply Corporation stock for the 104,225 issued and outstanding shares of The Dental Company of Canada, Limited. This exchange was made for 95,264 shares of American stock. The Toronto-based firm is a major retail distributor of dental supplies and equipment. Retail stores and offices are located in 11 Canadian cities.

In Brazil, we acquired controlling shares of Don Baxter S.A. Industrias Quimicas (formerly Industrias Quimicas Mangual)

which manufactures and distributes intravenous solutions and related health products. Another new company, McGaw Industries Proprietary Limited, was formed in Australia for promotion and distribution of American Hospital Supply Corporation products. A Japan branch of Scientific Products was formed for similar purposes.

The Inholder company of the Philippine Islands was acquired during 1968 and renamed Inholder-Don Baxter Laboratories, Inc. The company manufactures intravenous solutions and related products and also is a distributor of general hospital supplies.

Facilities

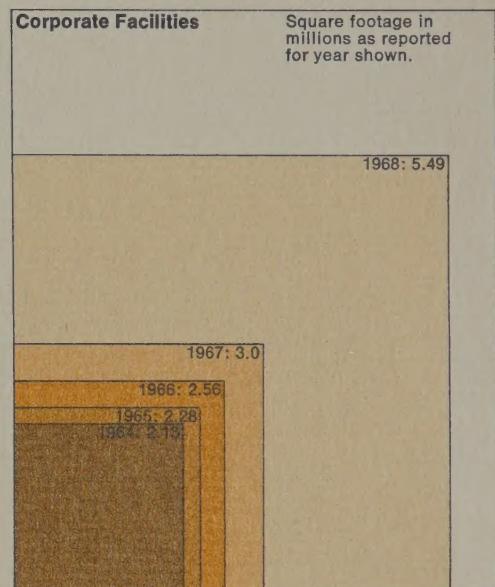
Although generally we have not used showy illustrations to describe our scope or progress, we were interested to learn that total floor space used by the corporation, about 5,494,500 square feet, now exceeds that of New York's Chrysler building, the United Nations building and Washington's Pentagon combined.

Foremost among facilities completed during 1968 was the Irvine, Calif., industrial plaza with 3 corporate buildings. The Scientific Products (S/P) and American Hospital Supply (AHS) divisions share warehouse and office space totaling about 120,000 square feet. Two manufacturing buildings, which total another 130,000 square feet, house manufacturing facilities for the Convertors and Harleco divisions.

A 49,000-square-foot sales and distribution center was completed for AHS and S/P in Kansas City. About 14,000 square feet of new construction was added to their Miami facility, and land acquisitions have been made for new AHS and S/P build-

ings in Detroit, Boston, Minneapolis, Atlanta and Seattle. Construction has begun at several of these sites.

In May, construction began on American's 227-acre industrial campus in North



Chicago, Ill. The main warehouse, which covers 342,000 square feet and stands nearly 4 stories high, will be completed late this year. Office buildings for AHS, S/P and the McGaw divisions also are under construction at the site, as are new manufacturing facilities for the Midwest American Dental Division. Heating, cooling and electrical power for all buildings will be provided from a central power plant, first phases of which are now in construction. Facilities now being built on the campus total about 700,000 square feet.

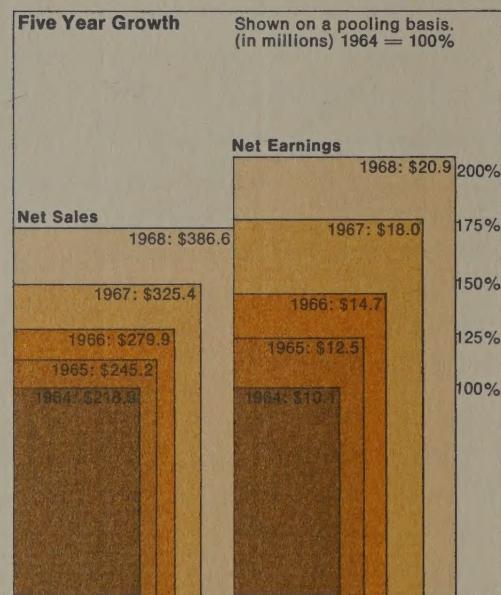
Pharmaseal Laboratories, Irwindale, Calif., added some 10,000 square feet to its engineering offices last year and also completed a new biological and bacteriological laboratory building. Added laboratory space of about 3,000 square feet is being built by Arnar-Stone Laboratories, Mt. Prospect, Ill. In Miami, 56 acres have been acquired near the

International Airport for new Dade Division facilities. Buildings, which will house a glass plant, an instrument factory and a warehouse, are scheduled for completion by the end of 1969. More than 40,000 square feet of warehouse and office space were added to the corporation's Canlab facility in Toronto last year.

Net additions to property, plant and equipment in 1968 totalled \$15,894,616.

Personnel

We began 1968 with a meeting in Los Angeles of our top management; our goals and methods were discussed and decided there. That we achieved what we



set out to do is the result of management efforts and the supporting work of nearly 12,000 employees.

Modifications were made in our executive structure last year. Christian G. Schmidt was elected executive vice-president and chief operations officer. Four men were promoted to operating vice-presidents, each responsible for a group of related companies. They are Karl D. Bays,

Harold G. Bernthal, William F. Porter and Paul D. Scheele. The resignation of J. Wendell Crain, who had served as group vice-president, became effective in July. John C. Denison was promoted to vice-president of marketing for the International Division.

These moves resulted in the promotion of several men to head some of our divisions. J. N. Widick was elected president of the Scientific Products Division, George H. Olsen was named president of the American Hospital Supply Division and William L. Reinhardt was promoted to president of the V. Mueller Division. John N. McConnell was elected president of Harleco and Gordon Hall was named president of McGaw Laboratories. Ray G. Halvorsen continues as president of Hamilton Manufacturing Company and M. E. Bower continues as president of Denco following acquisition of those companies.

We were saddened by the death of two men who had been part of this corporation since its first day in 1922. Charles Hough, for many years senior legal counsel, corporate secretary and a member of our board of directors, died in December. He was 75. Mr. Hough had rendered valuable legal guidance throughout his work with American, and he was especially active in our initial international efforts. When, because of age, he did not stand for reelection to the board of directors in 1967, he was named an honorary director for life.

In August, Arthur L. Towner, one of the founders of American Hospital Supply Corporation and for many years a member of our board of directors, died at the age of 71. Mr. Towner was one of the best-known men in the hospital

industry and was active on behalf of American until his death.

As of December 31, 1968, there were 11,995 employees in the corporation. A year earlier there were 8,269. Payroll and fringe benefit expenditures last year were \$83,395,584, an increase of 42 per cent over 1967 as reported. Among new benefit programs developed was a four-year college scholarship to be awarded annually to the child of an employee through National Merit Scholarship competition.

Stock, Dividends

A three-for-one stock split was voted at the annual meeting of stockholders on

Sales, Earnings Dollar		
Source of Sales Dollar	Use of Sales Dollar	Use of Earnings Dollar
Our Own Products 45¢	Net Profit 5¢ Taxes & Other 15¢ Employees 22¢	Stockholders 14¢ Reinvested for Growth 23¢
Products Made by Others 55¢	Goods and Services Purchased 58¢	All Taxes 57¢

May 4 last year. The split, effective May 31, was accompanied by a dividend rate increase. Stockholders thus received dividends of 21½ cents per share (adjusted for the split) compared to 17½ cents for 1967; an increase of 23 per cent. It was the thirteenth consecutive year in which we reported increased dividend payments. Total dividends paid were \$6,658,961.

In June, the corporation sold 1,800,000 shares of its stock through a public offering. Proceeds of \$59,310,000 were used to retire substantially all of our short-term bank loans (about \$25 million) and to provide approximately \$32 million needed for new construction. The balance was added to working capital. Issued and outstanding shares of the corporation totalled 32,278,724 on December 31 of last year.

Note on Report

In earlier annual reports, and in particular last year, we used a portion of the publication to describe health and hospital markets, our activities and facilities as they pertain to these markets, and our involvement in these activities on a worldwide scale. This emphasis on those things which are used in helping people be healthy remains the main thrust of this corporation.

But you may be interested to know something of how the skills and products we have developed for health have found their way into other areas: education, mass feeding and industry, to name a few. Some examples of this diversity are illustrated and discussed in the section which follows. Sincerely,

Foster G. McGaw Harry K. DeWitt

March 4, 1969



Chairman F. G. McGaw and President H. K. DeWitt

Directors

Foster G. McGaw
Chairman of the Board,
American Hospital Supply Corp.
Thomas G. Murdough
Vice-Chairman of the Board,
American Hospital Supply Corp.
Harold H. Anderson
Consultant to Publishers-Hall Syndicate
Austin T. Cushman
Chairman, Board of Trustees, Savings
& Profit Sharing Pension Fund
of Sears, Roebuck & Co. Employees
Harry K. DeWitt
President,
American Hospital Supply Corp.
James J. Griffitts, M.D.
President, Dade, a division of
American Hospital Supply Corp.
Edward P. Hamilton, Sr.
Chairman, Hamilton Manufacturing Co.,
a division of
American Hospital Supply Corp.
Joseph C. Hinsey, Ph.D.
Consultant, Former Director of
The New York Hospital-
Cornell Medical Center
Robert C. Keck
Partner, Spray, Price, Hough & Cushman
Richard N. Mackay
Partner, Mackay, McGregor & Bennion
J. Roscoe Miller, M.D.
President, Northwestern University
Graham J. Morgan
President, United States Gypsum Co.
Christian G. Schmidt
Executive Vice President,
American Hospital Supply Corp.
Kenneth V. Zwiener
Chairman of the Board,
Harris Trust and Savings Bank
Honorary Directors
Emery S. Beardsley
A. Calder Mackay

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Thomas G. Murdough
Vice-Chairman of the Board
Harry K. DeWitt
President and Chief Executive Officer
Christian G. Schmidt
Executive Vice President and
Chief Operations Officer
Robert M. Baker
Controller
George I. Blomquist
Vice-President, Federal
Robert K. DiVall
Vice-President and Treasurer
Robert C. Keck
Secretary
Robert F. Peters
Vice-President, International
Karl D. Bays
Vice-President
Harold G. Bernthal
Vice-President
William F. Porter
Vice-President
Paul D. Scheele
Vice-President
Ralph V. Seaman, Jr.
Vice-President, Personnel
Robert J. Foote
Assistant Treasurer
John L. Koonce
Assistant Treasurer
Miss Gladys Holm
Assistant Secretary
John W. Hough
Assistant Secretary
James R. Hull
Assistant Secretary
Arthur W. Johnson
Assistant Secretary

General Counsel
Spray, Price, Hough & Cushman, Chicago
Stock Transfer Agents
Harris Trust and Savings Bank, Chicago
The Chase Manhattan Bank, New York
Registrars of Stock
The Northern Trust Company, Chicago
Irving Trust Company, New York
Stock Listings
New York Stock Exchange
Midwest Stock Exchange

A Note on Diversity

American Hospital Supply Corporation was founded 47 years ago with a single market goal—to provide hospitals with the things they need to make people well. That concern has been augmented over the years as the corporation's definition of health care expanded to encompass activities outside of the hospital—public health, private practice, health and science education, medical research, nursing home care and similar areas.

So it is that health, as an industry, presents American with a broad and complex task; one which occupies us fully.

But the skills and products developed to serve health institutions often have applications in other areas—schools, vital industries, mass feeding and environmental control are just a few examples.

Some of these extensions of our basic interests are illustrated in the following pages.



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During 1967, U.S. hospitals served more than 1.3 billion meals. Solving the problems of hospital food service (complicated by the need for special diets in 20 per cent of the cases) is the work of American's Dietary Products department. Not all of its efforts are centered on the patient, since cafeterias and dining rooms for staff and visitors also are a part of most large hospitals.

Recently, Dietary Products' planning and equipping skills have been extended to new areas of mass feeding. Cafeterias, such as the one shown, and other food handling systems are being designed and installed for industry, schools and similar segments of the \$22 billion "away-from-home" food service market.





Even routine physical examinations today can involve a battery of tests extending over a period of several days. So it is not surprising that clinical laboratory facilities are perhaps the most rapidly growing segment of the hospital.

American's Scientific Products and Canlab divisions are suppliers of more than 15,000 items to clinical laboratories. Technical abilities, distribution networks and planning services of these divisions also are needed in areas of industrial quality control, food processing, research centers and educational laboratories.

Technicians in the photograph opposite are shown at a large electronics firm assembling gyros for missile guidance systems under S/P-distributed microscopes.





Nearly 40,000 young women graduate from nursing schools in America each year. The event represents a change in dress as well as status, as student uniforms, such as those designed, produced and distributed by American's Brucks, Inc., are replaced by nurses' uniforms.

Another kind of change in dress also has been taking place recently. The apparel of religious sisters is rapidly being adapted to contemporary style. Accommodating this trend, Brucks has designed and introduced an entire line of fashionable and practical suits and dresses for sisters.

In the photograph, Sister M. Alfreda, administrator of Evanston's St. Francis Hospital, examines one of the Brucks designs.





In 1922, when American began, hospitals bought large bolts of material; then cut and processed their own surgical sponges and dressings.

The economies and product improvements offered by dressing manufacturers, such as American's Texpack Limited, have eliminated this chore from the hospital's routine. Other advances from Texpack have included a line of disposable non-woven products—many of which have solved problems for industry, as well as for hospitals.

Texpack materials have been converted into filters for the dairy and paint industries. And at Douglas Aircraft Co. of Canada, Texpack tack cloths are used in the final cleaning of DC-9 surfaces (shown opposite) before painting.





The principal products of the health industry are things to help people get well. But a large group of these products might better be called "things to find out why they are sick."

Diagnostic chemicals, reagents, test sets and instrumentation are produced by American's Dade and Harleco divisions. And their research and development efforts have contributed products for numerous non-hospital uses.

A major public utility, for example, uses Harleco sulfation plates (shown in the photo opposite) to monitor the sulphur dioxide content of air, and thus helps prevent air pollution. Such activities and products are increasingly being applied against one of the nation's most serious problems.





When it joined American last year, Hamilton Manufacturing Company already had a number of varied and specialized production achievements to its credit. There were wooden type faces for printers desiring special effects. And, during World War I, the company even built fuselages for fighter planes. But a large part of Hamilton's activity has been the manufacture of functional and durable casework for laboratories and furnishings for physicians' examining suites.

Similar high standards are required in school furnishings. In the 1966-67 school year, more than 75,000 classrooms were completed; many with Hamilton furnishings.

"Designer Line" mobile tables, such as those shown in use at Evanston (Ill.) Township High School, serve as study tables most of the day; lunch tables at noon.





In preparing patients for surgery, a barricade against infection-producing bacteria is constructed. The patient is draped and doctors and nurses are gowned, gloved and masked.

New developments in raw materials and manufacturing techniques have brought paper products to surgery. A wide range of these products, manufactured by American's Convertors and Zimmon divisions, have found great acceptance because of their protective qualities and labor-saving disposability.

Similar barricades are needed in sensitive industrial areas. On the opposite page, workers in Zimmon disposable laboratory coats are shown readying the second stage of NASA's Saturn V lunar launch vehicle at North American Rockwell.

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Publications:

Stockholders desiring additional information on the corporation's activities and markets are invited to request any of the following publications:

"American Hospital Supply Corporation: A Profile", a 32-page illustrated report on the corporation's divisions, their products and people.

"American Hospital Supply Corporation: Two Views", recent addresses on hospital and non-hospital markets by President Harry K. DeWitt to the security analysts societies of Boston and New York.

"Health Care: An Industry Outlook", an illustrated brochure which discusses the development and scope of health markets.

Requests may be sent to:
Director of Public Relations
American Hospital Supply Corporation
1740 Ridge Avenue
Evanston, Illinois 60201



Statement of Earnings American Hospital Supply Corporation and Subsidiaries

	Year ended December 31	1968	1967
Net sales	\$386,587,846	\$325,433,831	
Cost of products sold	256,779,073	216,554,942	
	<u>\$129,808,773</u>	<u>\$108,878,889</u>	
Selling, shipping, warehousing and administrative expenses	88,719,092	75,921,592	
	<u>\$ 41,089,681</u>	<u>\$ 32,957,297</u>	
Other income, principally royalties and interest	2,341,816	2,073,886	
Interest expense	1,528,956	1,288,287	
Earnings before federal income taxes	\$ 41,902,541	\$ 33,742,896	
Federal income taxes	20,979,461	15,705,512	
Net earnings	<u>\$ 20,923,080</u>	<u>\$ 18,037,384</u>	
Net earnings per share of common stock	<u>\$.67</u>	<u>\$.59</u>	

See notes to financial statements.

Balance Sheet American Hospital Supply Corporation and Subsidiaries

	December 31	1968	1967
Current Assets:			
Cash	\$ 6,794,643	\$ 3,633,748	
Marketable securities at cost (approximates market)	32,697,306	5,238,667	
Receivables, less allowances—\$2,372,677 (1968); \$1,805,019 (1967)	83,848,419	61,974,796	
Inventories—Note B	76,255,698	66,136,117	
Prepaid expenses	5,959,769	3,502,175	
Total Current Assets	\$205,555,835	\$140,485,503	
Other Assets,			
principally receivables due after one year	3,654,592	5,372,654	
Property, Plant and Equipment, at cost—Note C:			
Land	\$ 5,883,615	\$ 4,894,285	
Buildings	38,705,237	29,634,118	
Machinery and equipment	25,009,424	20,587,185	
Furniture and fixtures	5,619,259	4,943,027	
	\$ 75,217,535	\$ 60,058,615	
Less accumulated depreciation	25,664,485	21,923,917	
	\$ 49,553,050	\$ 38,134,698	
Intangibles, at cost less amortization	518,610	661,257	
	\$259,282,087	\$184,654,112	

	December 31	1968	1967
Current Liabilities:			
Notes payable to banks	\$ 1,515,874	\$ 11,363,627	
Current maturities on long-term obligations	463,000	467,000	
Accounts payable	20,462,761	19,969,157	
Commissions, salaries and withholdings	4,522,166	3,353,815	
Retirement and profit-sharing plans	2,390,776	2,058,779	
Taxes other than federal income taxes	2,433,368	1,742,572	
Federal income taxes	<u>13,387,969</u>	<u>5,300,616</u>	
Total Current Liabilities	\$ 45,175,914	\$ 44,255,566	
 Long-Term Obligations, less current maturities—Note D:			
5% Notes payable to financial institutions	\$ 15,000,000	\$ 15,000,000	
Real estate mortgages, capitalized lease obligations, and a note	<u>3,492,994</u>	<u>3,788,500</u>	
	<u>\$ 18,492,994</u>	<u>\$ 18,788,500</u>	
 Stockholders' Investment:			
Common stock—Note E	\$ 97,087,894	\$ 37,348,880	
Retained earnings—Note D	<u>98,525,285</u>	<u>84,261,166</u>	
	<u>\$195,613,179</u>	<u>\$121,610,046</u>	
	<u>\$259,282,087</u>	<u>\$184,654,112</u>	

See notes to financial statements.

Statement of Stockholders' Investment American Hospital Supply Corporation and Subsidiaries

	Shares 1968*	Year ended December 31	
		1968	1967
Common Stock —no par value,			
60,000,000 shares authorized, issued and outstanding as follows:			
Balance, beginning of year, as previously reported.....	27,950,847	\$ 29,674,356	\$ 29,606,944
Adjustment for poolings of interests—Note A.....	2,452,190	7,674,524	7,690,100
Balance, beginning of year, as restated.....	30,403,037	\$ 37,348,880	\$ 37,297,044
Exercise of stock options:			
American	51,510	407,239	76,478
Pooled company prior to pooling	8,367	59,085	31,718
Purchase of Inholder Companies	15,810	387,345	
Public offering	1,800,000	59,310,000	
Stock issuance expense		(243,647)	(9,066)
Pooling expenses		(181,008)	(47,294)
	<u>32,278,724</u>	<u>\$ 97,087,894</u>	<u>\$ 37,348,880</u>
Retained Earnings:			
Balance, beginning of year as previously reported.....		\$ 65,627,255	\$ 55,321,484
Adjustment for poolings of interest—Note A.....		18,633,911	17,041,289
Balance, beginning of year, as restated		\$ 84,261,166	\$ 72,362,773
Net earnings		20,923,080	18,037,384
Cash dividends paid:			
American—\$.215 (1968); \$.175 (1967).....		(6,605,535)	(4,882,209)
Pooled companies prior to pooling		(53,426)	(1,256,782)
Balance, end of year		<u>\$ 98,525,285</u>	<u>\$ 84,261,166</u>
Total Stockholders' Investment		<u>\$195,613,179</u>	<u>\$121,610,046</u>

*After reflecting the three-for-one stock split effective May 31, 1968.

See notes to financial statements.

Source and Use of Funds American Hospital Supply Corporation and Subsidiaries

Year ended December 31, 1968

Source of Funds:

Operations:

Net earnings	\$20,923,080
Depreciation, which did not require use of funds.....	<u>4,476,264</u>
Total from operations	\$25,399,344
Net proceeds from public offering of common stock.....	59,310,000
Exercise of stock options	466,324
Miscellaneous—net	<u>10,137,906</u>
	<u>\$95,313,574</u>

Use of Funds:

Increase in cash and marketable securities	\$30,619,534
Increase in inventories	10,119,581
Increase in accounts receivable	21,873,623
Additions to property, plant and equipment	\$16,263,244
Less disposals	<u>368,628</u>
Dividends to stockholders	6,658,961
Payments on long-term debt	299,506
Decrease in notes payable to banks	<u>9,847,753</u>
	<u>\$95,313,574</u>

A. Principles of Consolidation:

The financial statements include the accounts of American Hospital Supply Corporation and all subsidiaries, excluding three minor subsidiaries in Brazil and 50%-owned companies.

In 1968, American issued 2,365,293 shares of its previously unissued common stock in exchange for all of the assets, properties and business of Hamilton Manufacturing Company. In January, 1969, American issued 95,264 shares of its previously unissued common stock for all of the outstanding common stock of The Dental Company of Canada, Limited. The foregoing transactions have been treated as poolings of interests for accounting purposes and accordingly the figures for 1967 have been restated.

A reconciliation of net sales and net earnings as originally published in the 1967 Annual Report to Stockholders to net sales and net earnings stated herein for 1967 is shown below:

	Net sales	Net earnings
As originally published.....	\$273,548,101	\$15,187,980
Effect of subsequent poolings of interests:		
Hamilton Manufacturing Co.....	45,964,510	2,658,955
The Dental Co. of Canada, Ltd.	5,921,220	190,449
As restated and reported herein....	<u>\$325,433,831</u>	<u>\$18,037,384</u>

B. Inventories:

Inventories are stated at the lower of cost (first-in, first-out method) or market, except for \$7,402,549 at December 31, 1968, stated at the lower of cost (last-in, first-out method) or market. Inventories consist of:

	December 31	
	1968	1967
Finished merchandise	\$52,397,960	\$47,706,317
Work in process	9,210,323	7,515,327
Raw materials	14,647,415	10,914,473
	<u>\$76,255,698</u>	<u>\$66,136,117</u>

C. Depreciation Policies:

American and its subsidiaries provide for depreciation over the estimated useful lives of the respective assets, using an accelerated method of depreciation on all additions to plant and equipment beginning January 1, 1962. For additions prior to January 1, 1962, the straight-line method of computing depreciation is in general use. Charges for depreciation included in costs and expenses amounted to \$4,476,264 in 1968 and \$3,642,361 in 1967.

D. Long-term Obligations:

The 5% notes mature in annual installments of \$800,000 from 1972 through 1985, with a final payment of \$3,800,000 due in 1986. The real estate mortgages and lease obligations mature in installments of varying amounts from 1969 to 1986. The aggregate long-term obligations at December 31, 1968,

maturing during the next five years are as follows:

1969	\$ 463,000
1970	466,000
1971	254,000
1972	1,095,000
1973	1,127,000

Under the most restrictive of the covenants in the loan agreements, retained earnings of approximately \$42,823,000 are available for the payment of cash dividends at Dec. 31, 1968.

American and subsidiaries were parties to lease agreements, excluding capitalized lease obligations, providing for aggregate rentals of approximately \$2,088,000 for 1968 and lesser amounts for subsequent years plus, in certain instances, real estate taxes and the cost of utilities.

E. Stock Options:

(all shares reflect the three-for-one stock split in 1968): Under the terms of American's stock option plans, options may be granted to officers and key employees of American and its subsidiaries. Options granted under the plans are at prices equal to 100% of the market price of American's shares at date of grant, are exercisable in five or ten equal annual installments and expire from five to ten years after the date of grant.

Changes during 1968 under the plans were as follows:

	Shares		
	Reserved	Granted	Available
Balance, January 1, 1968 as adjusted to reflect pooling of Hamilton	994,104	246,504	747,600
Granted		51,800	(51,800)
Exercised at an aggregate price of \$466,324	(59,877)	(59,877)	
Cancelled	(10,050)	(17,430)	7,380
Balance December 31 1968...	<u>924,177</u>	<u>220,997</u>	<u>703,180</u>
Option price		\$6.67	\$34.63
Exercisable at Dec. 31, 1968.			<u>74,097</u>

F. Pension and Retirement Plans:

American and most of its subsidiaries (except for Hamilton Manufacturing Company) have noncontributory pension plans covering substantially all employees after specified periods of service and attainment of minimum age requirements. The annual contribution is calculated under an actuarial method which essentially spreads the cost of future benefits over the average future service lives of active employees. American's policy is to fund pension cost accrued.

The Hamilton Manufacturing Company has a contributory retirement plan which, subject to certain age and service requirements, all employees are eligible to join.

The cost of the foregoing plans, included in costs and expenses, was \$1,406,778 in 1968 and \$1,076,924 in 1967.

Report of Independent Accountants

To the Stockholders and
Board of Directors
American Hospital Supply Corporation
Evanston, Illinois

We have examined the accompanying balance sheet of American Hospital Supply Corporation and subsidiaries as of December 31, 1968, the related statements of earnings and stockholders' investment and the statement of source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and

accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of American Hospital Supply Corporation and subsidiaries at December 31, 1968, the results of their operations and the source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 31, 1969

Touche, Ross, Bailey & Smart

Five Year Financial Comparison American Hospital Supply Corporation and Subsidiaries

\$ and shares in thousands	1968	1967	1966	1965	1964
Net Sales	\$386,588	\$325,434	\$279,884	\$245,192	\$218,872
Earnings before Federal Income Taxes	41,902	33,743	28,386	23,591	19,452
% of Net Sales	10.8	10.4	10.1	9.6	8.9
Net Earnings	20,923	18,037	14,711	12,541	10,089
% of Net Sales	5.4	5.5	5.3	5.1	4.6
Net Earnings per Share*	0.67	0.59	0.48	0.41	0.33
Provision for Depreciation	4,476	3,642	3,231	2,960	2,587
Stockholders' Investment Amount	195,613	121,610	109,660	100,133	91,729
Stockholders' Investment per Share*	6.24	4.00	3.61	3.29	3.02
Dividends Paid: Amount	6,659	6,139	5,090	4,433	4,012
Dividends Paid: Per Share*	0.215	0.175	0.142	0.121	0.104
Working Capital	160,380	96,230	91,527	71,795	68,065
Outstanding Shares	32,279	30,403	30,395	30,405	30,340

* All per share computations are adjusted for stock splits.
Used average shares of 31,363,000 for 1968.

Divisions and Subsidiaries

American Hospital Supply Corporation
Executive Offices:
1740 Ridge Avenue
Evanston, Illinois 60201

U.S. Divisions

American Hospital Supply
General Offices: Evanston, Ill.

Acme Metal Products
Chicago, Ill.

Burma Latex
Talmadge, Ohio

Convertors
General Offices: Newark, N.J.

Dade
Miami, Fla.

Edwards Laboratories
Santa Ana, Calif.

Hamilton Manufacturing Company
General Offices: Two Rivers, Wis.

Harleco
General Offices: Philadelphia, Pa.

Institutional Industries
Cincinnati, Ohio

McGaw Laboratories
General Offices: Glendale, Calif.

Midwest American Dental
General Offices: Melrose Park, Ill.

Pharmaseal
General Offices: Glendale, Calif.

Scientific Products
General Offices: Evanston, Ill.

V. Mueller
General Offices: Niles, Ill.

Zimmon
Belmont, Calif.

U.S. Subsidiaries

American Health Facilities, Inc.
Evanston, Ill.

American Hospital Credit Corporation
Evanston, Ill.

Arnar-Stone Laboratories
Mount Prospect, Ill.

Brucks, Inc. and related subsidiaries
General Offices: New York, N.Y.

Pharmaseal Laboratories
General Offices: Glendale, Calif.

Canadian Subsidiaries

American Hospital Supply Corporation
(Canada) Limited
General Offices: Toronto, Ont.

Canadian Laboratory Supplies Limited
General Offices: Toronto, Ont.

The Dental Company of Canada, Limited
General Offices: Toronto, Ont.

Pharmaseal Limited
Toronto, Ont.

Texpack Limited
Brantford, Ont.

International

International Division
Evanston, Ill.

American Hospital Supply Export
Corporation (AHSECO)
Evanston, Ill.

American Hospital Supply Corporation
del Ecuador, S.A.
Quito, Ecuador

American Hospital Supply Corporation
de Mexico, S.A. de C.V.
Mexico City, Mexico

American Hospital Supply Corporation
de Panama, S.A.
Panama City, Panama

American Hospital Supply Corporation
Peru
Lima, Peru

American Hospital Supply Corporation
de Puerto Rico, S.A.
San Juan, Puerto Rico

American Hospital Supply Corporation
de Venezuela, C.A.
Caracas, Venezuela

Baxter, G.m.b.H.
Munich, West Germany

Dade de Mexico, S.A.
Mexico City, Mexico

Don Baxter S.A. Industrias Quimicas
Rio de Janeiro, Brazil

Hoffman-Pinther & Bosworth, S.A.
Mexico City, Mexico

Inhelder Don Baxter Laboratories, Inc.
Manila, The Philippines

McGaw Industries Pty. Ltd.
Sydney, Australia

Med-Lab, S.A.
Panama City, Panama

Pharmaseal Laboratories, G.m.b.H.
Munich, West Germany

Scientific Products, Inc.
Tokyo, Japan

There are other domestic and international subsidiary corporations of which
American Hospital Supply Corporation is whole or partial owner.

